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other reason for the increase is the unutilised balance left of the proceeds of securities sold for financing reproductive and capital works. The total saving which we expect on account of these factors has to a slight extent been checked by an account adjustment, which Government have thought fit to carry out at this stage. The securities borne in the surplus investment account all bear the face value, which have absolutely no connection with their purchase value or even their present market value. Correct accounting required that the value should represent only the actual purchase price and not anything else. The investments have accordingly been revalued and the difference written off the Government Account.

Budget Estimate 1116.

17. I now turn to the budget estimate of the new year which would thus start with a balance of Rs 103·30 lakhs. Prior to placing before the House the actual figures of the budget, I consider it appropriate to acquaint the House with my *modus operandi* in preparing and fixing the estimates. The ordinary normal revenue allowing for a certain amount of deterioration in customs revenue is estimated to stand at the figure of Rs 265·65 lakhs, a figure practically equal to the revised estimates of the current year which has been acknowledged by me as the highest we so far had in the State. The anticipated expenditure based purely on a consideration of permanent or quasi permanent sanctions and on charges prescribed by law or rules having the force of law amounts to Rs 261·73 lakhs leaving a surplus of Rs 3·92 lakhs, a position which might be acclaimed by financiers as picturing an ideal state of affairs. In normal times with comfortable customs revenue, the mainstay of a maritime State like ours, there would have been sufficient margin to finance all schemes of development which have at heart the development of the country and the improvement of the conditions of the people.

18. But this is not to be when the times are abnormal. The fate of nations hangs in the balance. The free movement of trade is obstructed. One surprise after another overtakes us with staggering rapidity and the utmost vigilance, caution and circumspection preparedness and readiness to act for our Ruler and the King-Emperor have become necessary so much so the time has come for us to pool our resources, to augment our revenue and to economise in our expenditure, consistent with the needs of the country and the well being of her people. The House will therefore, I am sure, be one with me

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in agreeing that a provision of about Rs 10 lakhs for meeting the military and political emergencies that may arise will under no circumstances be regarded as unnecessary, imprudent or extravagant. It is also necessary, should the war be prolonged, to have some reserve left in the Revenue Reserve Fund.

19. The amount required, as will readily be seen, is not so considerable, and our revenue not so utterly inelastic that Government do not propose to find the money by raising a loan in the open market or by depletion of their balances. It has accordingly been considered necessary to have recourse to the following methods for augmenting revenue to the required extent:—

(i) to implement the necessary legislation for an increase of rates of income-tax and super-tax on higher incomes, that is to say, on incomes higher than Rs 5000. The rates of income-tax in the State are only about half the rates levied in British India. Many Firms and Companies which are assessed at the maximum rates of the State have business connection outside the State and are liable to be assessed at the British Indian rate. The object of the legislation will be to secure for the State the tax at the same rate which the assessee is paying under similar circumstances in British India.

(ii) to dovetail to it an excess profit duty on the same basis as in British India with the object of tapping only the additional business profits which accrue as a result of the conditions prevailing during the war and to equalise the conditions of business here with those elsewhere ;

(iii) to carry out arrangements for securing contracts for sales of cardamom in the State itself so that the transactions might be brought within the scope of the Travancore Income-tax Act ;

(iv) to reduce expenditure by bringing down the rates of interest on Savings Bank deposits by half per cent. *pari passu* with the reduction of the British Post Office rates, but maintaining the difference of one per cent between those rates and ours.

All these measures which manifestly affect only those who can afford to pay or to sacrifice are expected to bring about Rs 7 to 8 lakhs.

20. There is one other point which I wish to mention to the Honourable members before I give the actual figures of the budget. The share due to us on account of the Cochin Harbour Agreement used to be credited to us some time after the expiry of our State year by the British Government. Owing,

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however, to a change in the procedure which has necessitated the adjustment of these dues within the official year to which the revenue relates it has become possible for the amount to be advised to us before Karkadagom each year. In the first year in which such advice was made the amount relating to the previous year already stood credited to our revenue account. In order not to inflate the revenue account with another instalment of credit, the amount was kept under a suspense head outside the revenue account. There was also a plausible justification in doing so as the credit is advised by the British Government not all at once but in two instalments, the first instalment of 90 per cent. and the second of the balance. Government have decided that in the interests of the proper appraisement of the revenue position the amount should be assigned its rightful place in the revenue account of the year in which credit is afforded notwithstanding the inflation that may be caused in the accounts of the year in which the existing arrangement is disturbed. I have accordingly provided for the adjustment in the next year's accounts and raised the figure under the Customs revenue by Rs 15 lakhs, the amount anticipated for the next year.

21. The following are my figures for the next year's budget:—

Revenue	Rs	285·40	lakhs
Expenditure	,,	271·73	,,
Surplus	,,	13·67	,,

Compared with the revised estimates of the current year the revenue shows an increase of over Rs 19 lakhs and the expenditure of Rs 8 lakhs. Although the increase under revenue and expenditure may be explained to be due to the special measures already referred to by me and the change in the accounting procedure in respect of customs revenue contemplated and the extra expenditure due to the special expenditure of Rs 10 lakhs for war and political purposes budgeted, but for which, the surplus would have been in the neighbourhood of Rs 24 lakhs, I shall attempt a comparison of the position under each of the heads which shows the largest extent of variation, and indicate *interalia* the general policy of Government in the conduct of the affairs of those departments.

Revenue Receipts.

22. *Principal Heads of Revenue.* First I shall consider the principal heads of revenue and take up Land Revenue which shows an increase over the previous year's figures by Rs 2·5 lakhs. The members of the House would have been aware

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